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ABSTRACT

This report identifies and evaluates alternative funding mechanisms for financing school facility construction in Eugene Public School District 4J. Responding to the facility areas of the district over the next 20 years, the reasons for understanding the study can be classified as economic, demographic, social and political. In three major sections the following are discussed: (1) mechanisms for financing new school construction; (2) case studies of innovative funding; and (3) recommendations for selecting an appropriate set of mechanisms for School District 4J, the advantages and disadvantages of each mechanism along with an assessment of the legality and political viability of each. An attempt is made to recommend the appropriate set of mechanisms for this particular district. The efficiency, equity and expediency of the solution is geared toward the school's financing allocating the tax burden fairly among the beneficiaries and that is politically advantageous and feasible for School District 4J. (Author/CE)

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ALTERNATIVES FOR FINANCING SCHOOL FACILITY CONSTRUCTION IN EUGENE PUBLIC SCHOOL DISTRICT 4J

August 1980

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INTRODUCTION

The purpose of this report is to identify and evaluate alternative funding mechanisms for financing school facility construction in Eugene Public School District 4J. This report responds to the facility areas of the district over the next 20 years. There are numerous reasons for undertaking the study at this time. These reasons can be classified broadly as economic, demographic, social and political.

1. Economic Reasons

Rapid increases in public spending in Eugene in the 1970s has severely limited the ability of most local government agencies to raise sufficient revenues. The demand for limited public funds is expected to increase and the competition between government agencies for these funds is expected to intensify. The public revenue situation is so bleak that the City of Eugene has recently been considering the implementation of a local government income tax to supplement existing revenue sources. Given this situation, it is clearly in the public interest for District 4J to explore ways of financing school construction that will reduce the tax burden that the general public must bear. Some innovative financing mechanisms used elsewhere have shown the potential to provide needed schools at drastically reduced or negligible costs to the taxpayer.

2. Demographic Reasons

Even though District 4J has been experiencing declining enrollments since the late 1960s and has not financed and built a school since 1968, there is reason to believe that substantial new construction may be needed in the foreseeable future. The basis for speculation of this kind rests with current mismatch between the location of existing school faciltiies and the location of the school age population. Enrollments at schools in older and central Eugene neighborhoods have declined alarmingly in recent years. Meanwhile many schools in new residential neighborhoods at the fringe of the city have been crowded. This suggests that new residential development attracts young families. A recent survey of new housing (Smit 1979), shows that new housing produces, on average, twice as many children per household than the city as a whole.

The existing mismatch of school facilities and the demand for those facilities is likely to be exacerbated by the rapid population growth. Population growth in Eugene has varied between 4% and 5% since 1970 and the population of this city is expected to reach 173,000 by the year 2000. An estimated 70% of this growth has been due to immigration. If in response to this growth, the city expands around its fringes, the mismatch between the location of the school age population and the location of facilities will worsen.

The most commonly used solution to this problem is to bus children from crowded peripheral schools to emptier central schools. However, given the soaring price of gasoline, this solution may be far more costly than

constructing new facilities in the fringe areas. Byrne (1978) estimated that it would be cheaper to build a school on Goodpasture Island, where substantial new residential development has been proposed, than to bus children to other schools.

The important point is that even if enrollments continue to decline district-wide, new school construction might still be necessary because of the shifting location of the school-age population. There is also reason to speculate, however, that enrollments will start increasing again in the 1980s simply because of the sheer bulk of population growth and because many of the women who have deferred child bearing through the 1970s have reached the age where they can defer no longer. If enrollments do increase, new school construction may be necessary.

3. Social Reasons

The residents of District 4J have in recent years enjoyed a high standard of school service provision. Their expectations of the quality of future services remain high. An important component of these high expectations, is the belief that a school should be available to their children that is within short walking distance of their homes. Such expectations may escalate the demand for new school construction in peripheral neighborhoods.

4. Political Reasons

District 4J has traditionally financed new school construction through the issuing and sale of general obligation bonds. Voter approval is required before such bonds can be sold. In the past the local community has shown a willingness to pay for the new schools. However, the last time a bond issue specifically for new school construction was brought to the voters was in 1965. The political climate regarding fiscal matters has changed substantially since that time and voter reaction to requests to sell bonds for new construction is uncertain at this time. Nationwide the trend has been toward fiscal conservatism. However, there is little evidence at this time that District 4J voters will be unwilling to fund new construction. In July 1978, the voters approved the sale of $6 million dollars worth of general obligation bonds for a wide variety of facility related purposes at schools scattered throughout the District. Energy conservation, major maintenance, the upgrading of handicapped facilities and the construction of additional facilities at some schools provided the major reasons for raising the money.

While the voters did approve the sale of the bonds, it should be noted that expected benefits of the proposed facilities improvements were evenly distributed throughout the district. How the voters will react to the building of a new school at some specific location in the District is a moot point. The local community has in recent years shown much interest in developing taxing mechanisms which place the tax burden on those who

derive the benefits of the expenditure. Such interest is evidenced in the public support for the recently imposed system's development tax in the city of Eugene. This tax places a greater part of the burden of paying for major improvements to arterial streets, major sanitary sewer and storm drainage facilities needed to service new development on the occupants or owners of these developments. Given that there is evidence that the community is increasingly unwilling to pay the escalating costs of servicing new development, there must be some doubt that voters will approve the sale of bonds to finance the construction of new schools to serve new residential neighborhoods. Yet the demand for school services in these neighborhoods may be substantial.

The organization of this report is in three major sections. In the section following this introduction a number of mechanisms for financing new school construction are described. The advantages and disadvantages of each of these mechanisms are evaluated. Furthermore, an assessment is made of the legality and political viability of each. It should be noted that in assessing the legality of the various mechanisms, only the existence of statutory authority is considered. Legal challenge to any of the mechanisms can be based on numerous grounds even if statutory authority does exist. District 4J should therefore seek further legal advice before implementing any of the mechanisms described in this report that are not currently used.

The section describing the mechanisms is followed by a set of case studies. These cases describe instances in which innovative funding methods have been successfully used elsewhere. The case studies are handled in a separate section because many of them do not involve the exclusive use of only one kind of funding mechanism. In many parts of the country the simultaneous use of a whole package of funding mechanisms has been used successfully.

In the final section an attempt is made to recommend an appropriate set of mechanisms for School District 4J. Three criteria are used as a basis for selecting these mechanisms, namely: efficiency, equity and expediency. The use of these criteria reflects the concern of this paper to search for a set of mechanisms that results costs of school financing, that allocates the tax burden fairly among the beneficiaries and that is politically advantageous and feasible for School District 4J.

THE MECHANISMS

A. CAPITAL ACCUMULATION FOR FUTURE CONSTRUCTION

School construction is regarded as an operating cost and is budgeted as an expense. Tax money for paying the expense is kept in a reserve fund. When school construction is required, money is taken from the fund and the school building is paid for in cash.

In order to assess the amount of money to be budgeted for school construction each year, long term projections of the amount of funding that will be needed for future years must be made. These projections should account for interest accumulation, projected changes in construction costs, and projected changes in the local tax base.

Advantages

1. The accumulating money can be invested and earn interest for the district. This increases the total amount of money available for construction.

2. School construction is paid for in cash, thereby avoiding long-term financing charges.

3. It may (depending on the circumstances) be easier to get voter approval for a school district operating budget than would be the case with a bond issue. In case of bond issues, voters are aware of the specific location of the proposed new school so that regional bias may affect voting behavior. Some voters may feel that a new school on the other side of town will provide no benefits for them and consequently they will vote "no" on the bond issue. With a general operating budget however, voters are deciding on a general level of school services district-wide, without concern for the geographical location of benefits.

4. The tax burden is spread over a long period of time and does not fall on any one group of taxpayers at any one point in time.

Disadvantages

1. By removing money from the private sector before it is actually needed, private individuals are denied the opportunity of earning the interest on their money or of investing it in more lucrative investment schemes. In other words, the public is earning interest with taxpayer money when individual taxpayers could be doing the same.

2. There is considerable potential for underestimating or overestimating future need. (Numerous complex projections of future needs must be made). Overestimation is relatively easy to deal with. Excess funds

car be returned to the taxpayers. Underestimation is more serious and much needed facilities might never be built.

3. If construction costs are rising at a rate faster than interest earnings on capital accumulation, then the method may represent a diseconomy. The reserve funds will not be worth as much as when they were initially collected. In such cases debt financing is more economical.

4. The mechanism subsidizes future taxpayers (who get the benefits of new schools) at the expense of current taxpayers (who are obtaining no current benefits for their tax dollars). Nonetheless this subsidy is far from extreme.

5. This mechanism does not allow voters to decide on particular facilities.

Legality

ORS 280.100 provides the enabling legislation for the establishment of a building reserve fund. Such a reserve fund may be established without voter approval as long as the taxes levied are within the constitutional limitation (Oregon Constitution, Section 11, Article XI). If the taxes are outside the constitutional limitation, voter approval is necessary. The maximum term for which other voter approval may be requested is ten years.

Political Feasibility

Taxes levied to meet District 4J operating needs have in recent years exceeded the constitutional limitation and consequently have required voter approval. Such approval has been consistently difficult to get. For this reason it is probably unwise to increase the size of the operating budget for school construction.

There may also be some objections to the district earning interest from capital that taxpayers could be investing themselves.

Comment

Given that construction costs are increasing by 15 to 20% per annum in Eugene, the implementation of a building reserve fund makes little sense for District 4J. Only if the voters fail to approve debt financing measures should the district consider establishing such a fund.

See case study 8.

B. PAY-AS-YOU-GO FINANCING

Funds are raised whenever necessary by means of a one-time tax levy to cover total construction costs. The building is then paid for in cash.

Advantages:

1. By paying cash the charges associated with debt financing are avoided. Long term financing can increase the costs of new buildings by 40% to 200% (Education Facilities Laboratories 1971).

2. Pay-as-you-go financing mechanisms are easy to administer because no capital accumulation plans or debt issue and retirement plans are necessary.

3. If long term interest rates are fairly high, this is a more economical method.

Disadvantages:

1. The mechanism places the tax burden of providing a new school squarely on the shoulders of current taxpayers while future taxpayers pay nothing.

2. Because of the size of the levy required to pay cash for schools, voter approval is likely to be very difficult to get.

3. Because the need for school construction varies from year to year, so will the tax rate. This in turn makes financial planning difficult for those on whom the tax burden falls.

4. Paying cash might not be economical even if the district is able to raise the money. If the interest charges of long term financing are set at a rate which is lower than the general rate of inflation, then long term financing may be more economical.

Legality

While one-time levies are not explicitly addressed in the statutes, authority to levy such taxes is implicit in ORS 328.542 and ORS 328.550. The former provides school districts with the authority to levy taxes while the latter allows school districts to levy taxes serially outside the constitution limitation for a period not to exceed two years. A one year serial tax levy amounts to a one-time levy.

Political Feasibility

While District 4J voters have generally shown a willingness to approve

funding for new school construction, it is unlikely that a levy of the magnatude required to pay cash for school construction will be approved by the voters.

Comments:

Pay-as-you-go financing seems neither desirable nor feasible for District 4J. because of the high rate of general inflation and given the low interest rates available to the district on borrowed money, cash payments for new schools does not make much sense.

C. DEBT FINANCING

Debt financing is, in simplest terms, the borrowing of money to finance construction. Borrowed money is repaid at some future date along with interest payments. The traditional method of debt financing of new school construction is through the sale of bonds. Even though interest rates are traditionally low, bonds are attractive to both individuals and firms because they are tax exempt. The bonds are sold in a competitive bidding process to the bidder who demands the lowest interest rate for repayment. Bonds are usually repaid by levying a serial tax over the period of repayment. Once the bond is retired, the tax is dropped.

Types of Bonds

There are many kinds of debt instruments, the most common (of which) are "general obligation" (G.O.) bonds and revenue bonds. These instruments, and variations thereof, are discussed below:

General Obligation Bonds: General obligation bonds are used widely by school districts to finance new school construction. These bonds are guaranteed by the "full faith and credit" of the district issuing the bonds. Because repayment is guaranteed and because these bonds are tax exempt, interest rates are low. Site acquisition, construction major renovation, planning and management are all covered by general obligation financing. In most states, however, borrowing is restricted by a debt limit which places a ceiling on the amount of indebtedness that a district may legally assume. The major advantage of general obligation financing is the low rate of interest that can be obtained.

Revenue Bonds: Unlike general obligation bonds, revenue bonds are not guaranteed by the full taxing power of the district issuing them. Instead they are repaid with revenues that are generated by the capital improvement project itself. This type of funding is particularly appropriate when user charges are involved. In the context of schools, revenue bonds could be used to finance projects such as a new swimming pool or a new gymnasium. The general public would be allowed to use the facilities at certain times for a user fee. Furthermore, the district could lease some school facilities to other agencies and use lease revenues to retire revenue bonds. Revenues from user charges for most school facilities are, however, seldom sufficient to cover the costs of construction and at best can be used only to supplement other revenue sources. Furthermore, because revenue bonds are not guaranteed, higher interest rates are usually charged. Nonetheless revenue bonds may be attractive to school districts which have reached their debt ceiling or to districts with poorly rated general obligation issues.

Special Assessment Bonds: Bonds which are retired from assessments levied against properties that receive the most direct benefits of a capital

improvement project are called special assessment bonds. Use of a mechanism of this kind usually involves the establishment of special assessment districts which are independent of the school district. Should a new school, or other school capital improvements be built within any special assessment area, then only the residents of that area would pay the taxes necessary to retire the bond. Special assessment bonds can be guaranteed by "full faith" and as such become general obligation bonds. The major advantage of special assessment bonds are that they place the burden of repayment on those who stand to benefit the most from the capital improvement. Furthermore voter approval is more likely, simply because voters feel that they will benefit directly from the project. On the other hand the taxes levied against individual properties under a special assessment scheme, would be much higher than if the whole community paid for the building. The possibility of high taxes could result in voter rejection of the bond issue.

Tax Increment Bonds: These tax bonds are repaid with incremential tax revenues from new development. In other words a portion of the local taxes paid by the owners of new developments in the district is earmarked to pay for new school construction. Such bonds are not guaranteed and carry high interest rates. Furthermore the revenues generated in this way are seldom sufficient to pay for a new school.

Bond Structure

Bond issues differ, not only with respect to the source of bond revenues, but also with respect to structure. Two major kinds are identified, namely "term" bonds and "serial" bonds.

Term Bonds: With term bonds, repayment is made in the form of a lump sum at some specified future date. This lump sum includes all interest charges over the duration of the bond. In order to pay a lump sum, a school district must establish a sinking fund. Annualized tax payments are placed in this fund and earn interest. This is the major advantage of using term bonds. Interests earned on the accumulating capital in the sinking fund can be used to offset interest charges on the borrowed capital. The disadvantage is that throughout the duration of the bond, interest payments are being made on the entire principle amount in addition to annual interest increments to this amount. With serial bonds this is not the case. Term bonds are, however, advantageous when interest on money invested in the sinking fund is high.

Serial Bonds: With serial bonds both principle and interest are repaid at fixed time periods (usually bi-annually) according to some pre-determined scheme. The major advantage of this kind of mechanism is that the principle amount (on which interest is payable) decreases with each payment of principle and interest. Serial bonds are the most commonly used type and are most advantageous when interest charges on principle are high while the potential to earn interest through investment of taxpayer money is low.

Advantages and Disadvantages of Debt Financing

Advantages

1. Future dollars, considerably reduced in value by inflation, are used to pay for current construction. This is a major economy if construction costs are inflating at a rate higher than the rate of interest on the borrowed money.

2. The liability for the construction is spread over a number of years, so that an excessive burden does not fall on any one group of taxpayers or any one point in time.

3. Tax liability falls at least partially on those who obtain benefits from the capital project.

Disadvantages

1. General obligation bonds, the more widely used type, usually require voter approval. In an atmosphere of fiscal conservatism getting a bond issue approved at the polls may be a formidable task.

2. When the demand for money is high, financial institutions generally show little interest in bonds. This means that the district may find it very difficult to sell bonds even if voter approval is obtained. Bonds sold in a poor market, are likely to have high interest charges. Good financial management can, however, offset the effects of a cyclical bond market. When the market is bad, the district could avoid committing itself to long term debt by financing the initial stages of construction by selling notes. Notes are similar to bonds, but are used for short-term financing. When market conditions become favorable the district can sell bonds, thereby committing itself to long term financing at low interest rates (the interest rates are likely to be low with substantial competition for the bonds).

3. If interest rates are sufficiently high, the use of debt financing can more than double total cost of the facilities.

Legality

ORS 328.205 provides school districts with the authority to contract bonded indebtedness for new school construction. The law also specifies quite clearly which kind of bonds may be used. All bonds issued must be of the general obligation variety guaranteed by the "full faith" of the issuer (ORS 287.014). Furthermore all bonds must be in serial form, and pursuant to ORS 287.008 must have "definite maturities and shall mature in annual or semi-annual installments".

There are limitations on the amount of bonded indebtedness that school districts can assume, on the maximum length of issue, and on the

rate of interest allowable. Local school districts may not assume bonded indebtedness in excess of .55 of one percent for each grade 1 through 8, and .75 of one percent for each grade 9 through 12, (ORS 328.245). These limits are based on the total cash value of all taxable property within the district. The maximum length of time for which bonds may be issued is 30 years (ORS 287.008). Interest rates on bonds may not exceed seven percent (ORS 288.510). While there are tax rate limitations in Oregon, tax levies for repaying bonded indebtedness are over and above those for the current school program. The tax rate limitation, then, does not affect the districts ability to contract bonded indebtedness.

Revenue bonds, tax increment bonds and term bonds may not be issued by school districts in Oregon. Special assessment districts can be formed in Oregon for the purpose of constructing public facilities. ORS 198.715 to 198.955 spells out the procedures for establishing districts of this kind. These procedures include petitioning for 100 signatures before a referendum on the issue can be held. If voter approval is obtained, a district may be established. However, ORS 198.720 (2) prohibits the formation of a district within the boundaries of an already established district. School District 4J is authorized to build schools if necessary. Further legal opinion on this matter should be obtained if District 4J is interested in using a mechanism of this kind.

Finally the District does have the authority to sell notes for short term borrowing (ORS 287.404 and ORS 328.565). Pursuant to ORS 287.408 debt limitations are not applicable to the issuing of notes.

Political Feasibility

Because general obligation bonds have been used almost exclusively by District 4J, they remain the politically most acceptable on the mechanisms. Discussion of political feasibility as far as general obligation bonds is concerned, refers more to feasibility of voter approval than to feasibility of implementation. Whether or not the voters will approve bond issues for construction in District 4J, is hard to predict. In the past the voters have shown a willingness to pay for new schools. However given projections of a tight money market and the current atmosphere of fiscal conservatism, it may be difficult to raise funds through general obligation bonds.

Use of other kinds of bond issues described above will require changes in the state law. Political opposition to the use of revenue bonds, and tax increment bonds is not likely to be substantial. The use of special assessment bonds and term bonds may, however, be subject to considerable political opposition. Opposition to the former will probably revolve around the issue of who should pay for educational services and facilities, the community as a whole, or those receiving the most direct benefits. In the case of the latter, opposition will probably refer to the desirability of earning interest on taxpayers money when these taxpayers could be doing the same.

Comments

The use of general obligation bonds is one of the most economical and equitable (at the local level) ways to finance new school construction. The district has not built a new school since 1968 and consequently is well below its debt limitation. The costs of construction in Eugene are accelerating at a rate faster than are costs of borrowing money, which means that a mechanism which uses devalued future dollars to pay for current construction is desirable. For these reasons it seems wise that the district should continue to use general obligation bonds as a major means for financing new schools.

Nonetheless, given the current very high costs of construction, the district might benefit from using bond mechanisms such as revenue bonds. As mentioned above, school districts have no legal authority to issue revenue bonds. But cities have such authority (ORS 280.440). One possibility is for the City of Eugene to issue revenue bonds to pay for revenue producing school facilities such as swimming pools and gymnasiums. The district could then lease the facilities from the city and lease revenues could be used to pay the debt. Such an approach might be useful when it seems probable that voters will pass a bond issue only if the costs are fairly low. Removing the swimming pools, tennis courts and gymnasiums from building costs, can considerably reduce the amount of money that must be covered by general obligation bonds.

See Case Studies 9, 10, 11, 12

D. STATE AID

More than half of the states in the United States have some program for providing financial aid for school construction to school districts. The nature and magnitude of individual state programs vary substantially and exploration of all programs is beyond the scope of this report. Yet it is possible to categorize state construction aid programs into three broad categories:

1. Partial funding by providing a fixed number of dollars for each student in each district. All districts, then, are treated in the same way and no attempt is made to account for differences in district wealth or demand for school construction. This kind of assistance is provided in South Carolina, Tennessee, Alabama, Kentucky and Mississippi, (Garms et al, 1979).

2. Partial funding by providing varying numbers of dollars to districts according to need for construction and/or district wealth. In some states the local district decides how much construction it wants and the amount it wishes to spend. The state then provides aid, the amount of which varies according to the wealth of the district. Programs of this kind exist in New York and Illinois. Other state programs recognize that some districts have faster growing school population than others and consequently require more construction. Aid is distributed in accordance with construction need rather than wealth per se.

3. Full funding. Some states have decided to adopt full responsibility for funding new school construction. Surveys are conducted in all school districts in the state and construction needs are projected for each. Funds are then allocated to meet these needs subject to some form of maximum allowance and adjusted to account for differences in construction costs from one part of the state to another. Florida and Maryland are states which have full funding programs.

In addition to grants of money, some states also operate loan programs. Instead of selling bonds in the open market, individual districts borrow money from the state. Such borrowing is only beneficial to a district if the interest rate is lower than that charged on bonds and if the district is unable to sell bonds because of poor market conditions. In 1970, fourteen states operated loan programs (EFL 1971). Oregon is not among these states.

Advantages of State Aid

1. State aid usually benefits less wealthy districts. This is particularly the case when full funding or funding weighted according to district wealth is used. State aid is usually associated with equalization of educational opportunity.

2. State funding of new school construction is not subject to voter approval on every occasion that capital improvements are planned.

3. The state has the authority and capability to use more progressive taxing techniques than is the case with local governments. The income tax, for example, is generally acknowledged to be a more progressive tax than a property tax.

4. The ability of autonomous local school districts to finance school construction often depends on the mood of the voters and the state of the bond market. State aid allows the financing of new facilities on the basis of need for more space rather than on the basis market and political conditions.

Disadvantages of State Aid

1. Local autonomy is reduced or removed entirely.

2. Loan incentives to reduce costs and thereby lower taxes are absent.

3. Demand for school construction may exceed the state's ability to fund such construction. Districts will be competing for limited state funds. Artificially inflated demand for school construction might result in unnecessary increases in taxation and excessive spending.

4. Centralized state control of capital programs usually involves substantial administration, management and transaction costs.

Legality

There are no state aid programs for school construction in Oregon. Enabling legislation would have to be tabled before any such program could be implemented. The state does, however, provide funds for Community College construction (sections 5, 7 and 8, chapter 711, Oregon Laws; ORS 341.915 to ORS 341.950).

Comment

From a narrow self-interest perspective, District 4J stands to gain little from the establishment of a state aid program for new school construction. Only if the program is of a variety that provides flat grants of money without regard to relative district wealth will District 4J benefit in any way. District 4J is a relatively wealthy district and as such stands to gain more from local autonomy.

The district could benefit substantially, however, from the establishment of a state loan program with very low interest rates. However, it is unlikely that state loans will be available at a lower interest

rate that is currently available on general obligation bonds (given the District 4J's excellent bond rating).

The district should also be aware that state aid is available to Community Colleges for capital improvements. This creates some potential for cooperative ventures between local community colleges and the school district.

See case study 14

E. FEDERAL AID

The federal government does have a program for providing funds for school construction. However, these funds are available only under special circumstances. In essence, a school district is eligible for construction funds if it is experiencing an influx of pupils into its schools which is directly attributable to the presence of federal government installations (such as a major military camp). "Impact Aid" of this kind is available to districts that experience a 6% increase in Federally related student enrollments over a period of four years (EFL 1971). Numerous other criteria must be satisfied. But because of the lack of major federal installations in Eugene, these criteria are not elaborated here.

While federal aid specifically for school construction is quite limited, federal aid for cooperative local government ventures is a promising avenue for further exploration. The Department of Housing and Urban Development (HUD), provides community development grants for activities such as the provision of neighborhood facilities, community centers and so on. Community centers which have included schools have received financial assistance from HUD in numerous parts of the country (e.g., Washington D.C.'s 7 community centers). However, these Grants have been largely to economically and culturally depressed neighborhoods, such as some of the ghetto neighborhoods in the big cities. The Department of Health, Education and Welfare (HEW) provides assistance for community health centers, community education, vocational education, special programs for the aging and for the construction of public libraries. This means that federal aid may be available for community centers that provide many of the services described above. By sharing facilities such as libraries and health centers with other agencies, and by making the school facilities available for adult education, school districts could benefit directly from grants available for community development. There are proponents of massive federal involvement in funding education including new school construction. Arguments supporting their position are equalization and fiscal reform arguments.

Advantages of Federal Funding for School Construction

1. Federal funding can be organized in such a way as to account regional and local variations in wealth.

2. The federal government has access to the widest range of fiscal tools for raising money for school construction. The federal government can utilize progressive taxes while local government usually are limited to the use of property taxes.

Disadvantages of Federal Funding of School Construction

1. Loss of local autonomy.

2. Costly administration and unwieldy bureaucracy.

Legality

Oregon school districts are entitled (ORS 327.660) to apply for "Impact Aid" from the Federal Government. The funds are allocated to local districts by the State Superintendent of Public Instruction. Full responsibility for school construction throughout the country would require federal legislation.

Political Feasibility

Given the typically American preference for local autonomy, federal control of educational funding is unlikely.

Comment

While federal aid may have limited relevance in Eugene, the school district could be eligible for federal assistance if it enters into cooperative venture with other government agencies to provide community facilities which provide a wide range of human services. Joint ventures of this kind are dealt with in more in the discussion of joint occupancy which follows.

See case studies 3, 4

F. JOINT OCCUPANCY

Many prominent educational planners and economists recommend shared facilities, not only as an innovative means of financing school facilities, but also for solving many urban problems (Baas 1973, Clinchy 1970). A document published by the Educational Facilities Laboratories (1971), identifies three mechanisms which school districts can use for sharing facilities with other organizations.

1. The district builds the facility and leases it to other user organizations. Lease revenue is used to help offset construction and maintenance costs. This kind of mechanism is particularly useful when the leasing organizations (libraries for example) use the facilities concurrently or at different times of the day than the school district.

2. The other organization builds the facility which includes a school building. The district then leases the facility from the organization. Capital costs are reduced in this way and the method is attractive to districts who have difficulty raising funds for new construction because of debt limits.

3. First costs are shared according to expected usage. If for example the school district is expected to use the facility 75% of the time, while the other organization expects to use it 25% of the time, then the school district pays 75% of the construction costs and the other organization 25%.

Sharing With Other Public Organizations

Numerous public agencies may find it particularly attractive and economical to share facilities with school districts. Such agencies include, amongst others, Parks and Recreation, Health Clinics, Day Care Agencies, Municipal Libraries, Job Training and Vocational Programs, Adult Education and Community Colleges. Many public agencies use their facilities for only limited amounts of time each year. School buildings for example are often occupied for less than 1/3 of the day for half of the year (180 days), and serve about 1/5th of the population. Furthermore different agencies use their facilities at different times of the day. For example, public libraries are busiest in the evenings. School libraries, on the other hand, are used almost exclusively during daytime school hours. Clearly by sharing facilities both municipal libraries and schools could save money and increase the variety of the services they offer.

An important notion in city planning today is that of the "Community Center". Such centers are exactly what their names imply, i.e., a focus of communal and public life for neighborhoods and communities. Planners are excited by the possibility of vital multi-use centers, housing numerous government agencies and sharing many facilities. School buildings very

often provide the basis for such centers. These community centers differ from community schools in the sense that they are specifically designed for numerous community uses. Community schools, on the other hand, are schools which open some or all of their facilities to community use. Such use is usually limited. User charges are seldom utilized. A community center is a much more comprehensive concept.

Woods, Gordon & Co. (1977) and others (Molloy 1972, Baas 1973) identify the following major advantages of sharing facilities with other agencies:

1. Capital and operating costs can be shared.

2. Duplication of effort and facilities can be reduced.

3. More options are available to school and community. A wide range of experience can be concentrated in a single building.

4. Promotes contacts between people of different ages and backgrounds. This can in itself provide an important educational experience.

5. Coordination of recreational, health, educational, social and other agency activities can be facilitated by joint occupancy.

6. Public support for education can be broadened.

7. Combined use of facilities allows flexible responses to changes in demand for school services. For example, as enrollments decline in schools, so community use of the facility can increase (or vice versa).

8. Provides the possibility of better resource use (staff, finances and facilities).

9. Sharing rather than competing with other public enterprises eases site acquisition problems.

10. Joint financing allows numerous agencies to build facilities of a quality that would not be possible if each agency acted independently.

11. Agencies with financial problems (for e.g. those that have reached their debt limit or those which have poor credit ratings) now have access to financing tools available to other public agencies (federal aid, for example).

The following disadvantages are noted in the literature (Woods Gordon & Co. 1977, Molloy 1972, Baas 1973, Clinchy 1970).

1. Intricate and time consuming planning is often necessary.

2. Very often more administrative time is required to coordinate joint use of facilities. This is an ongoing operating cost.

3. Funding of both operating and capital costs may become considerably more complicated.

4. The school district could lose full control of the school design, financial and operating process. Some loss of control is inevitable under such schemes.

5. Some public agencies have characteristics which are inamicable to other public agencies. For example, a noisy day-care center and a public library are not particularly compatible. Nonetheless, problems of this kind can be averted by good design.

Sharing Facilities With Private Organizations

The sharing of facilities by school districts and private organizations is an interesting new concept which has much potential. There are numerous ways in which private organizations and school district can share facilities. In some cases developers can be persuaded to provide the district with a free school when this school enhances the marketability of the development. In Chicago, for example, the developers of a large moderate and low income housing project and community center sought HUD financing which would give them a 20 year mortgage at low interest (Woods, Gordon & Co. 1977). Part of the proposed community center was a school, and in order to obtain HUD financing, the developers agreed to sign over revenue profits from the proposed shopping center to pay for the school. In this way the district obtained a free school. Another alternative is for the developer to build and finance the facility and then lease space to the district. Joint financing of facilities is also possible.

Yet another possibility is for school districts to build and finance a building which includes space which can be rented, leased, or sold to private organizations. If income from the sources is substantial enough, the community may get a free school.

Whatever the mechanism adopted for sharing and funding the facility, the following are some of the advantages of sharing facilities with private organizations (Woods, Gordon & Co., 1977; Baas 1973; Clinchy 1970):

1. Capital cost arrangements can provide major savings for both school districts and private organizations.

2. Flexible arrangements can allow efficient responses to changes in demand for school services. In times of peak enrollments, encroachment onto commercial space could be permitted. As enrollments decline, commercial enterprises could take over vacated school space.

3. Property taxes paid by private partners help to increase the tax base.

4. Parents working for commercial enterprises which are part of the project (shopping centers etc.) can have more contact with their children during the day.

5. Joint district/private organization facilities have the potential to become exciting community centers which provide a stimulating and convenient environment for children and adults alike.

6. The availability of economic and social services at one location provides benefits to the community as a whole.

Yet despite these advantages, private organizations are "probably the most difficult kind of partner to include in a shared facility" (Woods, Gordon & Co. 1977, p. 55).

Disadvantages include the following:

1. Planning and administration is more intricate and time-consuming.

2. Financing is complicated.

3. Political opposition may be substantial.

4. Private organizations are motivated by profits while school districts are motivated by the desire to provide good services. Conflicts are possible because of these different orientations.

5. The school district may lose much autonomy with respect to design, use and disposition of the shared facility. This is inherent in a joint occupancy approach.

Legality

ORS 280.150 provides school districts with authority to jointly finance and share facilities with other units of local government. The legislation reads as follows:

> "280.150 Appropriating money and issuing bonds to construct, operate and maintain joint facilities. Incorporate cities, school districts and counties of this state may jointly, in such manner as they shall agree upon, construct, acquire, own, equip, operate and maintain facilities which will directly aid each participating governmental unit in performing a duty or duties imposed upon it or aid in exercising a power or powers conferred upon it, and may appropriate money and may issue bonds therefor."

The school district does, however, not have authority to jointly occupy and finance facilities with private organizations. However, ORS 271.370 does enable school districts to "sell, exchange, convey or lease any part of their interest in property" which is not needed for school purposes. This legislation probably permits districts to build school facilities and lease or sell part of the facility to private enterprises. Further legal counsel on this possibility should be sought before any action is taken.

ORS 332.155 gives school districts authority to lease facilities for school purposes from both public and private organizations. Again, the statutes do not address the question of whether or not schools and private organizations may jointly occupy a site and/or facility. In summary a school district may share, operate and finance facilities with other agencies and may lease or sell district facilities to and from public and private organizations. There is no special provision in the statutes for sharing of facilities with private organizations.

Political Feasibility

Sharing of facilities by public agencies requires cooperation and good intergovernmental relations. There is no reason to believe that such relations cannot be developed in Eugene.

There may be some political opposition to the sharing of facilities with private organizations. The district should carefully consider the political implications of whatever joint occupancy ventures they intend pursuing.

Comment

Joint occupancy in concept and application, has essentially been a "big city" phenomenon. Nonetheless the pursuit of innovative joint occupancy programs is perhaps the politically most feasible and financially most rewarding course School District 4J can take. The district already has agreements with Parks and Recreation in Eugene for joint use of facilities and in cooperation regarding the acquisition of school sites and parklands. Furthermore, the inhabitants of District 4J have responded well to the community school concept and a number of community centers (without schools) have been established (i.e. Amazon Community Center, Westmoreland Community Center).

Because much of the demands for new schools in Eugene derives from new development, the school district could benefit by entering into agreements to share facilities with private organizations. Given that a strong case could be made that such joint ventures are in the public interest, variances could be obtained which would allow developers to build shopping facilities or apartments in neighborhoods that are, for example, zoned for single family residential use. Such arrangements may provide private organizations with incentives to enter into joint ventures and school districts may get free or substantially cheaper schools out of the deal.

See case studies 1, 2, 3, 4, 5

G. LONG TERM LEASING OF FACILITIES FROM OTHER ORGANIZATIONS

Long term leasing arrangements are becoming increasingly popular mechanisms for financing new school construction. Such mechanisms are particularly popular in cases where the local school district has reached it's statutorily imposed debt limit, has difficulty in passing bond issues at the polls, or cannot sell bonds on the market. The intention of most long-term leasing arrangements is for the district to either purchase the facilities at some future time (when it becomes politically and economically feasible to do so) or to continue leasing the facility until the building is paid for (at which time it becomes school district property). EFL (1971) describes the lease-purchase mechanism as follows:

> "Most leasing programs follow a standard pattern. A "third-party" organization assumes responsibility for the design, construction, and financing of a new school facility. The third party leases this facility (usually on a year-to-year basis) to the school district. Because the lease is for only one or two years and does not involve acquisition of capital equipment, the lease costs may be paid with operating funds. There is no long-term commitment involved, and therefore no effect upon the present indebtedness of the school system. However, there is usually a purchase option in the lease that allows the school district to buy the property at any time for the balance outstanding on the mortgage. When the mortgage has been retired, ownership of the school passes to the tenant school district" (p.20)

As EFL points out, the district ends up owning a school which has been financed on a time-payment plan.

The "third-party" organizations involved in lease purchase agreement can be of many different types. Some states and cities have made use of building commissions which are usually separate government agencies formed soley for the purpose of building public facilities. These commissions often have wider range of fiscal tools at their disposal for financing schools than do school districts. Some building commissions, for example, may have the authority to issue revenue bonds. Facilities are leased to user agencies and lease revenues can be used to help retire bonds. City or county governments can similarly act as third party organization and may have access to a wider range of fiscal mechanisms.

In some school districts, non-profit organizations have been formed for financing and building schools. Such non-profit organizations are

in essence quasi-private corporations and as such are not subject to the same kind of procedural constraints that bind many public agencies. Non-profit organizations, for example, can negotiate interest rates on loaned money whereas an open bidding process must be used by school districts. Non-profit organizations can use a wide variety of financing instruments such as revenue bonds, commercial notes and mortgages. Another type of leasing organization is the commercial leasing company. Many of these companies are package dealers offering design, financing and building services. Still others may be concerned only with some component of the building process such as the manufacturing of prefabricated, mobile or modular classrooms. Like non-profit organizations, private organizations are not encumbered by procurement laws and consequently have access to a wide variety of financing mechanisms and can employ money-saving procedures such as negotiated bidding. However, high interest rates on financing methods such as commercial mortgages and notes, can increase costs substantially.

Advantages of Long-Term Leasing

1. The major advantage of long-term leasing is that it allows school districts to bypass certain constraints on their ability to finance new schools such as debt limitations and the requirement of voter approval.

2. By leasing from either private or non-profit organizations school districts can save money because these organizations can use cost saving techniques that are not permissable in the public sector.

3. Some leasing organizations, such as building commissions and other public agencies have access to a wider range of fiscal tools than school districts.

4. Private and non-profit leasing organizations may use a wider variety of mechanisms for assuming debt than is the case with most school districts. In a tight money market this can be a substantial advantage.

Disadvantages of Long-Term Leasing

1. The lease-purchase concept is essentially a time-payment plan for financing new schools which may be less economical than financing through the sale of general obligation bonds. Where school districts have good bond ratings, it is likely that leasing will prove more expensive than traditional financing. Furthermore, leasing carries higher risks than general obligation bond financing because there is often no guarantee that the school district will continue to lease the facility over the period necessary to pay for it. This higher risk is often reflected in higher interest charges on borrowed money.

2. School districts can use their powers of eminent domain to acquire sites for schools. Private and non-profit organization must compete in the open market for acceptable sites and this can increase costs.

3. The establishment of leasing organizations such as building commissions and non-profit organizations often requires complex planning and administration..

4. Where the leasing organization is another public agency or a non-profit organization the district may lose some of its autonomy in making building decisions.

Legality

Pursuant to ORS 332.155 school districts may enter into long term agreements to lease school buildings and land for school purposes. Where the buildings are to be used primarily for instruction, long-term leases of up to 10 years are authorized. In the case of other school district buildings, lease agreements may be for a term of up to 30 years. Lease-purchase agreements, where leasing is used as a time-payment plan for purchasing school buildings, is also allowed.

While other public agencies may build on land owned by the school district in accordance with ORS 271.330, no authority is provided for private organizations to do so. School districts may have to sell or lease school land to private developers and then reacquire both land and property through a lease-purchase agreement. Such reacquisition is authorized in section (4) of ORS 332.155:

> 332.155 Land buildings; equipment and services. A district school board:
>
> (4) May sell property of the district in transactions whereby the district has the right to lease, occupy or reacquire the property following the sale or have facilities constructed thereon or furnished to the specifications of the district.

Political Feasibility

Lease payments must usually be made from a district's operating fund which in turn is limited by Oregon's tax limitation laws. When the limitation is exceeded, additional funds can be obtained through a tax levy, but only with voter approval. In the recent years School District 4J's operating budget has exceeded the statutory limit and consequently operating budgets have required voter approval. It is possible, however, that the electorate is more likely to approve the levying of taxes for a general school facility operating fund than they are to approve a bond issue for a specific school. The reason is that a general operating fund implies the provision and maintenance of adequate facilities in all parts of the district. The sale of bonds to finance a specific school may

introduce regional bias into the voting in the sense that those who live in the neighborhood where the school is to be built will vote "yes", while those that expect negligible benefits from the school will vote "no".

An important political legal aspect of leasing that School District 4J should consider before using such a mechanism is that the use of leasing may be interpeted as an attempt to evade voter control on school spending. Legal challenges have been launched in other states but the majority of court precedents are favorable to leasing (EFL, 1971).

Comment

As noted above the major advantage of leasing as a mechanism for funding new construction is that it provides an alternative for districts which cannot issue general obligation bonds because they have reached their debt limits or because voter approval cannot be obtained at the polls. District 4J is at this time well below its debt limit while there is a trend toward fiscal conservatism throughout the West Coast, District 4J voters have shown no reluctance to provide funds for school construction. Furthermore, District 4J has excellent bond ratings which means that money can be borrowed using general obligation bonds at very low interest. Leasing, then, is likely to be a more expensive alternative for financing schools in Eugene than is the current method of issuing general obligation bonds. It appears, then, that District 4J has little to gain from establishing a leasing program. The district should, however, be aware that the leasing alternative does exist should it ever find that it cannot pass bond issues at the polls, or reach its debt limit, or be unable to sell bonds on the commercial market.

See case studies 2, 5, 9, 10

H. SELLING PROPERTY TO FINANCE CAPITAL OUTLAYS

In districts where some buildings are underutilized while others are overcrowded, it may make sense to sell underused buildings or parts thereof to raise capital for new construction in crowded schools. The city of Cleveland recently raised $2.5 million by selling 28 buildings and numerous parcels of vacant land (Time Magazine, 1978).

Byrne (1979), stresses that in selling unused buildings and land the district should guard against looking at unused facilities as liability. The district should approach the selling process with imagination and with the opportunist eyes of a developer. Schools often have considerable potential for reconversion to other uses. Byrne (1979) summarizes some of the advantages as follows:

> "Schools are often in desirable locations, within residential areas and in close proximity to downtowns. School buildings were usually built with safety in mind with many windows, stairways and exits. The yards provide space for parking required by local ordinances for residential or commercial uses. The classroom size common in many old buildings, thirty feet by thirty feet, makes a good one-bedroom apartment (or professional office). Building time is shorter than with new construction from the ground up since utilities and the building shell are already in place. For the developer this means savings in short-term costs and faster occupancy." (P. 81)

Anderson (1978) points out that an additional advantage for developers interested in buying and converting school buildings is that they can use the school district's muscle as a public agency to gain the necessary zoning and local government policy changes needed. Changes in federal tax laws (1976), provide further incentives to developers. These changes allow developers "to write off the entire value of rehabilitation over a five year period" (Byrne 1979, p.82).

School districts should be aware of the advantages that unused school buildings and land have for redevelopment to ensure that they get a fair price for the facilities that they sell. Even if the school buildings are not worth very much, the land they are sited on may be. Very often underused schools are located in downtown areas where land values are high. Furthermore, the materials that older schools are built of may have substantial value, (Byrne 1979). Copper pipes, unusual woodwork and lighting fixtures are all materials that can fetch a fair price on todays markets.

Advantages

1. The major advantages of selling unused school facilities to finance new school construction, is that the public does not have to pay

additional taxes. The mechanism amounts to the transferring of existing assets from one part of a school district to another.

2. The mechanism is efficient in the sense that a district obtains revenues from assets that would otherwise have been a financial liability (operating and maintenance costs).

3. The sold property is returned to the tax rolls to generate additional long-term revenues.

4. Revenues from the sale are available immediately as ready cash.

Disadvantages

1. The sale of an older underused school building will seldom, if ever, provide sufficient revenues to finance the construction of a new school elsewhere. This means that additional revenues will probably have to be raised. However, with declining enrollments district-wide it may be acceptable to reduce the district's total facility capacity by selling more school buildings that are replaced by new construction.

2. The closing and selling of schools is a politically volatile issue and consequently many school boards are reluctant to use selling a mechanism for financing construction.

3. The closing and sale of a school in an older residential neighborhood can accelerate the deterioration of that neighborhood.

4. There is considerable speculation that central and older neighborhoods may experience a resurgence of young families because of astronomical increases in the price of new housing. If there is a strong possibility of this shift occurring, then it makes little sense to sell schools which are currently underused, but may be needed again in the near future.

Legality

School districts have the authority to sell, exchange, convey or lease any of its buildings and property that are not needed for school purposes (ORS 271.370). It is possible, however, that the sale of schools in central areas or older neighborhoods may be challenged on equal protection grounds.

Political Feasibility

> "Recommend closing a school to the school board and watch the color drain from their faces." (Byrne, 1979, p.76)

The sale of an underused school is perhaps the politically least feasible of the mechanisms for financing new school construction. School closure is a highly emotional and sensitive issue and as Mazzarella and Barber (1978) point out "almost everyone agrees that school closure ought

to be a last resort for a school district". However, it should be noted that school closure is not a necessary prerequisite for selling school buildings and land. It is possible to sell parts of school buildings and land and still keep the school in operation. Another alternative is to sell the entire property with the option to lease needed space from the new owner. This makes capital available for new construction elsewhere while lease payments can be made out of operating funds.

Comments

Eugene Public School District 4J has numerous schools in central and older neighborhoods which are operating well below program capacity. Some of these schools (such as Patterson and Westmoreland) are located in close proximity of each other so that it may be possible to close and sell one of these schools without sacrificing the neighborhood school concept, (i.e., most pupils would still be within one mile of a local elementary school). Yet from a political point of view it probably makes more sense to sell parts of existing school buildings and land rather to close any schools. Such a strategy is attractive and may be enhanced if shared facility arrangements can be arrived at with the buyers.

I. LAND BANKING

Land banking is a concept that is currently receiving considerable attention in growth management literature. Land banking involves the advance buying of land thereby "banking" it for future public use. The technique has been proposed as a means of controlling urban growth and of procuring desirable land (especially parkland and open space) for projected public use.

An extension of this concept is for school districts to buy school sites in anticipation of school population growth in certain areas. Such properties may be in the path of commercial, industrial, or residential development and may become more valuable as development pressures increase. In such cases these sites could be sold for profit. Revenues from the sale could be used to buy a less valuable but equally well located (with respect to the student population) site elsewhere. Remaining revenues can be used to help finance the construction of a new school on the site.

Use of land banking as a mechanism for financing new school construction, requires that school boards acquire sites with an acumen and astuteness that is more typical of realtors. The decision to purchase a site should be made more on the basis of whether the site will increase in value through time, than on the merits and demerits of the site for building a school.

Advantages

1. Profits on land sales can be used to reduce the taxpayer burden for new school construction.

2. Cash for new construction is immediately available.

3. Profits land sales can be large and can far exceed the returns on other investment opportunities.

Disadvantages

1. Revenues from land sales will seldom be sufficient to cover the cost of an alternate site and the school construction.

2. Taxpayer money (to buy land) is used to earn profits for the public when individual taxpayers could be doing the same.

3. The speculative buying of sites is a risky business. Some may contend that the district has no right to enter into risky land ventures with public money. Nonetheless, the district does, as part of its normal facility planning, buy sites in locations where new residential development is expected. This is no less risky than buying sites with a view to making money off them.

Legality

Pursuant to ORS 273.251, school lands are classified as state lands and as such are subject to laws governing state acquisition and disposition of land. ORS 273.615, spells out the state policy regarding state investment in land.

> 273.615 Policy. It shall be the policy of the State of Oregon to hold in state ownership no more public land than is necessary to conduct official business, with allowance for reasonably forseeable demands of the future.

It is quite clear then, that the law places strong restrictions on investment in land by public agencies. However, the law does make allowance for "reasonably forseeable demands of the future". It is this provision that enables school districts to buy sites in areas where demand for school services is projected to be substantial enough to necessitate the building of a new school. A broader interpretation of the statute might allow for the speculative buying of sites which have the potential to help provide funds for projected construction needs. Nonetheless, public buying of land expressly for the purposes of raising funds appears to be contrary to state policy.

Political Feasibility

Political reaction to any conscious attempts by the school district to buy and sell land to raise funds for school construction is likely to be swift and adverse. The real estate industry is likely to complain that it is improper for government to compete with private individuals in the land market. Furthermore, the investment of taxpayer money in what might be construed as risky land speculation is likely to produce vociferous opposition.

Comment

It seems unlikely that land banking by school districts as a means for raising capital for school construction would survive legal and political challenge. Nonetheless, this should not stop District 4J from buying what sites it does buy intelligently. Intelligent buying involves buying sites that will not become a liability to the school district but which might instead become valuable. Furthermore, the district should consider selling some of the sites it currently owns if cheaper, equally appropriate sites may be found elsewhere.[1] The Bond Lane site in the Willagillespie area is a good example. This site is well situated for residential development but not for serving projected demand for school services in the Willagillespie area. The Bond Lane site should fetch a good price on the market and proceeds could be used to purchase a better located (and probably cheaper) site on Goodpasture Island where demand for school services is projected to be substantial.

[1] The School District 4J Facilities Siting Report 1979 presents a discussion (p 107-110) and 3 recommendations (p 143-144) regarding currently owned sites.

J. SELLING OR LEASING AIR RIGHTS OVER SCHOOL PROPERTY

The selling or leasing of air rights over a school property is a relatively new and effective way to raise funds for new school construction. The potential of the mechanism is highlighted in a 1968 article in Engineering News Record appropriately titled "New York Schools: Build Now, Pay Never". Air rights are, as the name implies, are rights to use or occupy the air space over a property. Air rights above a school can be sold to developers for a variety of projects. A high rise apartment building, for example, could be built above a school. The purchase of air rights may be considerably cheaper for a developer than the purchase of a site especially since many of the utilities provided to the school can readily be extended to the apartment building. In New York City, a 25-story moderate income apartment development has been built above a three-story elementary school. Where development projects are built above schools, a superstructure may be needed which will increase the costs of the school building (EFL 1972). In such cases the developer can be asked to pay for superstructure costs. Revenues from the sale of lease of air rights may be sufficient to pay for the new school.

An alternative is for the developer to buy the ground rights to a property, while the school is built on the air rights above the private development. This type of arrangement may be particularly appropriate when a shopping or commercial center is proposed for the site.

Advantages

1. Taxpayers do not have to carry the burden of paying for a new school.

2. Revenue from the sale of air or ground rights are often sufficient to pay for a new school in its entirety.

3. The commercial or private portion of the property is taxable and thus provides additional revenues to the district.

4. Children and parents from the apartment building benefit from advantages of a school on site. Furthermore, children would not have to be provided with transportation which reduces costs to the school districts.

Disadvantages

1. Both the school district and the private developer will have to make concessions regarding the design of the building.

2. Construction costs may be increased considerably because of the need for superstructure. Architects agree that "piggyback" construction

often carries many hidden costs and have suggested that buildings should be built next to each other rather than above or below each other, (Baas, 1973). This they suggest will reduce engineering costs.

3. Political opposition may be substantial. Much of this opposition is likely to be based on the unsuitability of the proposed environment for educating children.

4. Legal and administrative arrangements may be very complex.

Legality

While school districts have no specific authority to sell air rights, they do have authority to sell property that is not needed for school purposes (ORS 271.370). Broadly construed, the air space above a school building is school district property and as such may be sold by the district if it is not needed for public purposes.

Political Feasibility

Residents within the boundaries of Eugene Public School District 4J have come to enjoy relatively high quality school services. A school located above a shopping center or below an apartment building may not meet the local public's demand for quality school services. Public perception of the "ideal or conventional school" may prove a major obstacle in Eugene. Yet the fact that the taxpayers will have to pay nothing or very little for the new school may be sufficient to overcome this problem.

Comment

The sale of air or ground rights as a mechanism for raising funds for new schools, has considerable potential in Eugene. Numerous apartment buildings have been proposed on Goodpasture Island, for example, which have the potential to provide substantial problems for the school district in terms of providing services for children living in these buildings. The use of an air rights mechanism could provide the district with a free school on the Island. The District could purchase a site on the Island (or swap one of its existing sites for one on the Island) and then make it known that the air rights above any proposed school are for sale. Should developers show an interest in purchasing such air rights, then funds for school construction may be forthcoming. It is, however, uncertain whether a market exists for air space above schools in Eugene.

In the future the district is likely to face similar problems to those created by the development of Goodpasture Island. The air rights mechanism for financial school construction should be seriously considered.

See case study 2.

K. GIFTS

Funds can be raised for new school construction by actively soliciting donations and gifts in much the same way that universities and colleges do. However, because of the American tradition of tax supported public education and the substantial competition for the revenues of this kind, the solicitation of gifts as a means for financing new schools is not particularly promising. Nonetheless, developers can sometimes be persuaded to donate land for school sites if they feel that the building of a school on the site may enhance the value of his/her property.

Advantages

1. Gifts of land or money can substantially reduce taxpayer burden.

2. Gifts provide perhaps the least complicated mechanism for financing construction.

Disadvantages

1. Revenues from gifts and donations are seldom sufficient to cover the costs of building a school.

2. Gift revenues are very uncertain and erratic.

Legality

ORS 332.375 provides school districts with authority to accept gifts.

> 332.375 Board's authority to accept gifts. Consistent with the laws of this state, the District School Board may accept money or property donated for the use or benefit of the school district and use such money or property for the purpose for which it was donated.

Political Feasibility

Political opposition to the acceptance of gifts should be minimal.

Comment

School Districts should not ignore the possibility of raising funds through gifts. Nonetheless, the uncertainty of this kind of fund and the competition for funds of this kind make it unlikely that gifts will ever become a significant source of construction funding.

L. MANDATORY DEDICATION OF LAND OR FEES, IN LIEU THEREOF BY DEVELOPERS

Land or fee dedication is mechanism that has been developed to deal with excessive costs to school districts caused by large scale residential development and expansion. In this scheme developers must dedicate either land or fees in lieu thereof for school purposes as a condition for subdivision approval. Where the development project is very large, the dedication of land is appropriate. On the other hand, where the project is small, fees in lieu of land may be more suitable. These fees can be used to help offset the costs of busing children generated by the project or be placed in a sinking fund earmarked for school construction in the neighborhood when necessary and feasible.

The justification for land or fee dedication is generally based on the argument that the developer's activities place a disproportionately large burden on local taxpayers who must pay for public services necessitated by the development. In essence the mechanism amounts to a tax on developer profits and the argument is often made that the value and saleability of development projects is largely dependent on the availability of public services. Proponents of the mechanism suggest that this is a good reason for taxing developer profits. If roads, sewers and other public improvements are often dedicated for public use, then there appears to be little reason, the proponents argue, why this should not be the case with schools.

Advantages

1. Land or fee dedication reduces the tax burden that the general public must bear.

2. Because the costs of land or fee dedication are often passed on to the consumers of new housing by the developer in the form of higher housing prices, a substantial portion of the tax burden falls on those who benefit from the provision of the additional school services.

3. Land or fee dedication provides the district with some kind of protection against large scale unphased developments (such as those on Goodpasture Island).

4. Increases in the price of new housing may force young families to look for cheaper older housing in older and central neighborhoods where there is space in schools.

Disadvantages

1. Land dedication does not make capital available for construction. This must be raised through some other method. Fee dedication must be accumulated in a sinking fund over a fairly long period of

time (depending on development activity) before sufficient funds are available for construction. If the cost of materials and construction labor are increasing rapidly, the fund may never be sufficient.

2. Taxes on developer profits through land or fee dedication are often passed onto the consumer which forces up the price of housing.

3. Taxes on developer profits may discourage housing construction in the district, a situation that may not be in the public interest.

4. Difficulties arise in deciding when a developer must dedicate land or fees. For example, there seems to be little sense in requiring dedications when the project is located adjacent to an already existing school which has ample space. On the other hand, if all new development is not taxed in this way, problems of a different kind occur. Consider, for example, the case of development projects sited near a similar project built some years previously and in which a new school has been built on a mandatory dedicated site? Assume further that there is space in the school for all children from the neighboring development. Should the developers of these neighboring developments be asked to dedicate land or more appropriately fees even though school services are available to children living there at no incremental cost to the public? If not, why should one developer have to bear the costs of providing school services for his/her competitors? Clearly, the development of an equitable dedication ordinance is a complex and delicate task.

Legality

While school districts have no authority to require mandatory dedication of land or fees, state zoning enabling legislation (ORS 227.220) provides that cities and counties may "zone" for the public interest, health, comfort, convenience, preservation of public peace, safety, morals and the public welfare. Furthermore, the same subdivision regulations are desiged to prevent overcrowding and to facilitate adequate provision for, amongst other things, education.

> ORS. 92.044(1) "The governing body of a county or a city may, by regulation or ordinance, adopt standards, in addition to those otherwise provided by law, governing,***the approval of plats or subdivisions***where the additional standards are considered necessary to carry out development patterns or plans and to promote the public health, safety or general welfare. Such standards may include taking into consideration the location and surrounding area of the proposed subdivisions, requirements for placement of utilities, for the width and location of streets or for the minimum lot sizes and such other requirements as the governing body considers necessary for lessening

> congestion in the streets,***<u>for preventing overcrowding of land or for facilitating adequate provision</u> of transportation, water supply, sewerage, drainage, <u>education</u>, recreation or other needs" (Emphasis added)

Land or fee dedication could be broadly interpreted as a subdivision regulation for facilitating the adequate provision of education.

The City of Eugene's subdivision ordinance (Eugene Code § 9.010) is a replica of the state Enabling Act. The City also has ordinances which allow for the dedication of land for streets, alleys, pedestrian ways and drainage (Eugene Codes §§ 9.065, 9.070, 9.075, 9.85). No express provision is made for the dedication of land or fees for school purposes. Such provisions would have to be added to existing ordinances. It should also be noted that the dedication of fees in lieu of land is not expressly authorized for any kind of dedication in either the city codes or the state enabling legislation.

Mandatory dedication ordinances have been challenged on numerous grounds throughout the country. Court decisions have been relatively consistent and have generally upheld dedication ordinances if:

1. There are reasonable standards governing the amount of land to be dedicated or the extent of the fee to be exacted.

2. The need for new school facilities is attributable, at least in part, to the proposed development.

3. Dedicated land or fees will be used largely though not solely for the benefit of those occupying the subdivision.

In 1972 School District 4J attorneys investigated the possibility of introducing a dedication ordinance for school purposes. They concluded that such ordinances are legally feasible.

> ...We have also concluded that it is legally feasible to consider new city ordinances requiring developers to dedicate land for school purposes or pay a fee in lieu of such dedication. (Riddlesbarger et al, 1972 p.2)

Review of case history since 1972 provides no reason for disagreeing with the above conclusion.

Political Feasibility

Any attempt to implement a dedication ordinance in Eugene is likely to meet with opposition from the home building industry that is "immediate, strong and effective", (Byrne 1979, p. 76). Attempts to obtain

specific enabling legislation at the state level has been effectively blocked by lobbying efforts of developers. Such attempts were made in 1973 and 1975. The 1973 attempt failed to get through the first house. The 1975 attempt got through the first house but not the second. Political opposition from other public agencies would also be expected especially from those agencies whose purpose is to promote the adequate provision of housing. Should the school district opt to use dedication, they should expect a protracted political battle and be prepared to support the proposed ordinance with defensible data.

Comment

In deciding whether to pursue land or fee dedication, school districts will have to come to terms with a number of issues. It is doubtful whether this mechanism would raise sufficient funds to pay for the construction of schools. It is much more likely that it would be able to provide for school sites and for site improvements.

Even if the mechanism is an effective means for raising money for school construction, the District will have to decide whether a tax of this kind is desirable and in the public interest. Because costs of dedication are in part passed on to the consumers of new housing, dedication requirements ultimately may amount to sales tax on new housing. In this country it is usual to speak about taxes in terms of whether they are progressive, proportional or regressive. If lower income individuals pay a proportionally smaller amount of their income toward a certain tax than do higher income individuals then the tax is said to be progressive. If the reverse is true, then the tax is regressive. If high and low income groups pay equal proportions of their income the tax is said to be proportional. Progressive tax systems are generally regarded to be the most acceptable. Sales taxes are, however, generally regarded as regressive. In other words, a disproportionate burden falls on those who can least affort it. While dedication requirements may ultimately amount to a sales tax on new housing, it is not entirely clear that the consumers of new housing are low income people. A survey of new housing conducted in Eugene found that the occupants of new housing had incomes which were an average slightly higher than the county average (Smit 1979). Furthermore, the survey shows that it is not unreasonable to speculate that the purchasers of new housing are people who are on their way up on the income totum pole. The large preponderance of new housing occupants were in the age group 25 to 40, which suggests that they have not reached their earning capacities. What the survey does not show, however, is the effect of increasing housing costs on what economists calls "hard-core" low income individuals who have probably been priced right out of the market.

See case study 13.

M. DEVELOPMENT TAXES

Development taxes are similar in concept to dedication requirements. We have noted in a previous section that dedication requirements may in fact amount to an indirect tax on the consumers of new housing. A development tax is a direct tax on the consumption of new housing. The rationale for such charges is simple enough. New subdivisions and planned unit developments must be supplied with additional public services. Sometimes major capital improvement projects are necessary to provide such services. Because the general public stands to gain little from these improvements, it is regarded as more equitable to place a tax burden on those who have necessitated the improvements and who will benefit most directly from them.

The City of Eugene implemented a systems development tax in April of 1978. Revenues obtained from the tax are earmarked for improving arterial streets, major sanitary sewer and storm drainage facilities. The tax averages between 1.2% and 1.4% of the building permit valueation (April 23, memorandum from the City of Eugene to Oregon Legislative Assembly). It is estimated that the systems development tax pays about 50% of the costs of service extension while the remaining 50% is financed through traditional means.

As new development is a major contributory factor to the facility problems facing District 40, one option would be to increase the existing development tax and earmark the proceeds for school services or place them in a sinking fund for school construction.

Advantages

1. The tax burden on the general public is reduced.

2. A greater proportion of the tax burden falls on those who benefit from the additional school services than is the case with dedication requirements.

3. A development tax is simpler to administer than a dedication requirement.

Disadvantages

1. Because of the large cost of school buildings, development taxes will seldom be sufficient to fund new school construction. The bulk of the capital necessary will probably have to be acquired through other methods.

2. A tax on new housing may adversely affect the demand for such housing. This could have deleterious effects on the homebuilding industry.

3. Some of the occupants of new housing are individuals who have lived in the community all their lives and have contributed to the existing school services and facilities. Given that these individuals gain little direct benefit from existing facilities, it seems inquitable to expect them to finance school facilities without help from the rest of the community.

4. Developer profits, that are in part attributable to the availability of school services, are not taxed.

Legality

School districts do not have the authority to impose development taxes. The City of Eugene, in accordance with its chapter, does however, have authority to levy development taxes for municipal purposes. The city's current systems development tax is laid out in sections 7.275 to 7.285 of the Eugene Code. Whether or not the city can use its taxing power expressly for raising funds which would be earmarked for school services is a moot point. Such authority may depend on the extent to which funds for school construction can be considered a municipal or city purpose. One justification for the use of municipal funds for school construction may be the assertion that schools are an important component of city neighborhoods independent of their specific educational function. Such importance has been recognized in community documents such as the 1990 Eugene Springfield Metropolitan Plan. The continued functioning of underenrolled downtown schools is, for example, regarded as important to the realization of the broader city and metropolitan goal of maintaining the quality of life in certain neighborhoods. If this argument can be made for central city neighborhoods, then there is no reason why construction of schools in peripheral neighborhoods should not also have municipal or city wide importance.

Political Feasibility

Like dedication requirements, school district use of the City of Eugene's development tax to raise funds for new school construction is likely to meet with stiff political opposition. The strongest opposition is likely to come from the homebuilding industry and from other government agencies concerned with the provision of housing. In the 1979 regular session of the Oregon Legislative Assembly, a bill (House Bill 2564) aimed at prohibiting the imposition of system's development taxes was presented to the assembly for consideration. The bill was sponsored by Achilles Kerans at the request of Oregon State Home Builders Association. The bill did not pass the house. An example of public housing agency opposition to development taxes is the State Housing council's challenge of the City of Lake Oswego's development tax on the grounds that it violated Oregon Land Conservation and Development Commission (LCDC) housing goals. LCDC recently decided in the favor of Lake Oswego.

While political opposition can be expected to be organized and vociferous, considerable public support can also be anticipated. Eugene's systems development tax was strongly supported by neighborhood groups and citizen's at public hearings.

Comment

Many of the issues raised in the "comment" subsection of the discussion on land dedication as a financing mechanism are equally appropriate here.

CASE STUDIES

1. Lower Merian Townships Joint Library and Elementary School

Lower Merian Township in Pennsylvania, needed an elementary school and library. By combining them in one facility the township saved an estimated half-million dollars in building costs. The use of shared facilities also considerably reduced operating costs by sharing space, personnel, fuel, maintenance equipment and supplies. There is, for example, an estimated $1000 per annum saving on custodial help and a $10,000 saving on a librarian (one full time librarian serves both school and community).

The joint use of the facility has worked well (American School and University, 1975). The library's heaviest community use is late in the afternoon, in the evenings and on weekends. School children use the library mostly during the weekdays and in the mornings and early afternoons. One problem has been the noise that an elementary school can sometimes generate. However, good design and differences in peak use periods for the two users has helped alleviate this problem.

2. The New York City Educational Construction Fund.

Activities of the New York City Educational Construction Fund are reported in an Educational Facilities Laboratory Report (1971) and in an article by Baas (1973). The fund is a public benefit non-profit corporation which is "devoted to the construction of schools on combined occupancy sites with housing, office buildings or other suitable projects..." (EFL 1972). The Fund oversees planning, design, construction and occupancy of these joint facilities. Of particular interest is the mechanisms that the fund uses to finance its schools. In essence schools are financed with notes and revenue bonds. But funds for retiring these bonds is obtained largely from:

1. Selling or leasing air or ground rights of sites owned by the fund to other public agencies or to private organizations.

2. Tax equivalent payments from the other occupants of the joint facility. These payments are the equivalent of the property taxes that these occupants would have to pay to the city.

The process of financing and building a school usually takes the following form. The city donates a site to the fund which may be city owned land or land obtained using fiscal mechanisms available to the city. The fund then undertakes to build a school building on the site. A developer is found who is interested in taking on the development of some joint facility project. The Fund closely supervises the activities of the developer. The school portion of the joint facility is generally financed with short-term notes. If air or ground rights are purchased

by some other organization the short-term bonds can be retired without problems. If air or ground rights are leased, then the corporation will usually issue revenue bonds to retire the notes. EFL reports that up to this time the use of revenue bonds has been unnecessary.

The techniques used by the New York Educational Construction Fund, have allowed the construction of schools at no monetary costs to the general public. Where joint occupancy does not provide sufficient income to cover the total costs of constructing a school, surplus funds from similar projects or conventional funding techniques can be used. Clearly the success of these techniques depends on the existence of demand for air rights. Demand for such rights in areas where there is demand for new school construction may not always coincide and this is probably the case in Eugene.

3. Washington D.C.'s Community School Resource Center

In September 1974, the first of seven planned community school resource centers are opened. The Washington Highlands Community Complex (WHCS) is one of the most sophisticated interagency ventures in the country. A joint financing mechanism was used which allowed for a greater amount of capital financing. Many facilities are shared and the center is operated jointly. Hughes (1974) describes the complex as a "one-stop shopping center for human services".

The center serves the high-density Anacostia-Congress Heights Area which has a population which is predominantly low and middle income black. Hughes (1974) describes the neighborhood as a "focal point for families with economic and personal problems." Consequently the center provides an appropriate clearinghouse for education, social, physical and welfare services. The elementary school includes a kindergarten and prekindergarten program and overall provides instruction for 970 children. Other social services include a health center, day care center, adult education center and a neighborhood service center. The health center, for example, has a staff of 20 which includes a pediatrician, gynecologist, obstetrician, dentist, dental hygienist, nutritionist, mental health worker, social worker, laboratory technician and nursing staff.

Many community and private agencies use the center to provide services. These agencies include the following: D.C. Department of Human Resources, Office of Economic Opportunity, Bureau of Youth Services, Community Care Division, Neighborhood Legal Services, D.C. Department of Recreation, Office of Employment Services, D.C. Department of Manpower Development, Youth Opportunities Twenty-four Hour Satellite program and Trinity College Consortium Arts and Crafts program.

Approximately 60% of the center is shared space. Shared areas are two gymnasiums, an auditorium, locker rooms, physical education classrooms,

playing fields, an assembly hall, a central kitchen, a music room and piano laboratory, a home economics suite, a community lounge, a teen center, a snack bar, an industrial arts hobby shop and a swimming pool. The use of shared space is carefully coordinated by a central administration.

4. The Whitmer Human Resource Center, Pontiac, Michigan

Like the Washington D.C. Resource Center, the Whitmer Human Resource Center has the following features:

-A joint financing mechanism instead of separate budgets was used.

-The resource was jointly planned by the school district, other public agencies and the community.

-Facilities are shared.

-Use of the center is coordinated by a central administration.

The center was initially built to replace four struggling downtown elementary schools and to provide social and recreation service to downtown neighborhoods. Ten community agencies use the building. Fifteen areas of the facility are shared between the agencies. Services include day care, medical and health services, adult education, recreation arts, and a public restaurant. The center is located on a 14 acre site and is open from 7 A.M. to 10 P.M.

In addition to the funds raised by using the many financing mechanisms available to the user agencies, the City of Pontiac obtained more than $1.6 million in federal aid from HUD's neighborhood facilities program, (EFL 1972). The grant money was used to assist financing and to build additional facilities which are leased to other user agencies.

5. Baltimore Community College

The Baltimore Community College's Inner Harbor Campus is located in a busy commercial district in a Baltimore redevelopment area. The interesting aspect of the financing of the campus buildings is that rents from commercial organizations using ground floor facilities are used. This rental space was funded with public funds raised through bond sales and was designed specifically for commercial use. There was a conscious effort to design a building with rental space, the proceeds of which would be used to fund the building. The existence of commercial firms

on the campus has enriched the learning environment and many firms offer internships to students of the college.

6. Davenport, Iowa's Remodeled Department Store

A school district located in Davenport Iowa saved more than $1 million in 1975 when they remodeled a vacant department store for school use. The building is now a modern vocational technical school. As many as 1000 students will eventually be housed in the school (250 are housed currently). A local realtor informed the school board, which was trying to raise money for the building of a vocational technical school, of the availability to the store. The building was structurally sound, air-conditioned, sprinklered and contained 77,000 square feet of open space all on one floor. The building was also located on an 11 acre site and along a major arterial.

The school district bought the building and site for $875,000. An additional $1,067,000 was put into reconstruction. In all the building cost an average of $29 per square foot to construct and equip. Considering the kind of equipment needed in vocational and technical schools this cost is considered to be very low. The architects estimate that remodeling rather than beginning from scratch, reduced costs by 20%.

7. Hightston's School in a Supermarket

East Windsor Regional School District in New Jersey has discovered that supermarkets make "super" schools. A vacant supermarket in Hightston, N.J. was converted into an elementary school for 250 pupils at the incredibly low cost of $1.40 per square foot. Apart from cost savings occuring from obtaining the building cheaply, substantial savings also resulted from the use of willing teachers, citizen volunteers and vocational technical high school students. These people were responsible for the entire design and actual remodeling of the school which had to meet code and Board of Education standards.

8. Building a Junior High School Without Bonds

The case of Hebron Voters in the Lakewood Local School District had consistently rejected bond issues for building new schools. As a consequence the school district experimented with the use of a higher

operating levey. Voters did not object to a somewhat higher operating levy of 8.9 mills, 2 mills of which were earmarked for construction. Funds obtained in this way were used to build a new school in Hebron.

Because of the unconventional financing used, the planning and architectural firm planned a five-phase construction schedule that would take place over a period of five years. Each phase was commenced when funds for that year became available. Planning a building that would have such a long construction period provided some problems for the architects. For example, they had to be sure that certain building materials would be available when needed five years in the future. However, innovative architecture was the rule and a modular building was constructed. The buildings constructed at the end of each phase were self contained and could be occupied immediately.

The total cost of the new school was $800,000. It was estimated that if bond issue financing had been used (over a 20 year period) that the school would have cost about $2 million, (American School and University, 1978).

9. Chicago Public Building Commission

In 1968 Chicago faced tremendous demand for new construction. Much of this demand stemmed from the need to rehabilitate or rebuild many of the city's old schools. As many as 100 schools built before 1900 had to be replaced. Cost of such replacement was estimated at more than $1 billion and it was clear that school districts could not obtain these funds through conventional procedures. It was for this reason that it was decided to make use of the funding ability of the Chicago Building Commission which had been established in 1955. The Commission had authorization to issue and sell revenue bonds for any city agency that needed an building.

The commission is comprised of the Mayor, 6 lay people, and representatives from public agencies such as the Chicago Park District, the Metropolitan Sanitary District, the Board of Education and Cook County. The Commission funds school construction by issuing revenue bonds and then leasing buildings to the school districts. The revenue bonds are paid for with lease revenues. School districts make lease payments out of their operating budgets. The additional funds for the operating budget are obtained by levying additional property taxes.

The consensus is that funding schools in this way actually increases the cost of construction (because of the higher interest rate on revenue bonds). Nonetheless, use of the commission has allowed the construction of many schools in Chicago that would not have been possible otherwise. Furthermore, many costly delays in school construction (with construction costs increasing very rapidly) have been avoided.

10. The Indiana School Building Corporation

The Indiana School Building Corporation's activities are summarized in an article by Monfort Barr (1970). The corporation has been established largely in response to a stringent state debt limitation of 2%. The corporation is not comprised of permanent personnel as is the case with the Chicago Building Commission. The corporation can be brought into operation locally. When the purpose for which the corporation was formed is achieved, the corporation is dissolved. In 1947 state legislation was enacted to allow school districts to make use of nonprofit corporations. The following procedural steps are involved. First a nonprofit corporation comprised of a three or more member Board of Directors is formed. School Board members may serve on the nonprofit organization. The corporation then issues and sells non-divident stock to the community. This stock is redeemed when the building corporation is dissolved. No interest is ever paid on this stock.

With the status of a nonprofit corporation, the building corporation may issue bonds and disregard the state debt limitations. The bonds are secured by a mortgage on the school building. Nonprofit corporation status allows the building corporation to mortgage property in this way. The corporation then issues and sells bonds to finance the new school.

The new buildings are then leased to the local school district. Ownership of these buildings reverts to the school districts when the bonds are paid off (through lease payments). School districts have the option to purchase the facility at any point in time.

In 1957 an Act was passed allowing school districts to lease school buildings from private corporations. These private organizations operate in much the same way as public "nonprofit" organizations but they make use of private money for financing. Mortgaging and commercial notes are the usual mechanisms used and the state has special provisions which allow the mortgagor tax exempt loans. Tax exempt loans reduce interest rates, but the use of private corporations may only be economical if conditions in the bond market are such that interest rates on retiring bonds are high.

The advantage of using nonprofit or private corporations for building schools can be summarized as follows: First, it allows school districts to circumvent debt limitations and meet demand for school services. Second, corporations have access to wide range of funding mechanisms such as mortgages, commercial notes, revenue bonds and other instruments. Finally, these corporations are not tied by state procurement law, so that bids can be negotiated, cost saving techniques can be employed, and package deals can be accepted. However, the success of such corporation depends on conditions in the finance market. Without government backing, these corporations may find it difficult to secure loans or sell revenue bonds. Because of higher risks, interest rates are likely to be high.

11. Special Purpose School Construction Taxation Districts in Illinois

Fitzgibbon and Thomson (1972) report on the use of special assessment districts in Illinois. These districts are similar to water or sewage districts. Procedural steps in establishing a special purpose school construction taxation district are as follows: The first step is to define a boundary. Usually the boundary is drawn to include all individuals who are likely to benefit from the proposed capital improvement. Next a petition must be circulated and sufficient signatures obtained to approve a referendum on the establishment of the special district. Finally voter approval of residents within the boundaries of the district must be obtained.

Once a special assessment district has been established, bonds can be issued and sold (with voter approval). In Illinois these bonds may be either general obligation bonds (backed by the full faith of the special assessment district) or revenue bonds. Note that the special assessment district and not the school district owns the school building. These buildings are often leased to school districts on "a dollar a year" or "good will" basis. Lease-purchase arrangement are also often used. Lease income is used to help retire bonds so that tax assessment in the special district is reduced. In some special assessment districts private or nonprofit corporations have been used to sell revenue bonds. These are repaid with lease revenue.

12. Bowling Green, Kentucky: An Experiment with Revenue Bonds

Bowling Green School District had obtained voter approval to issue general obligation bonds to build a new school. However, the nature of the bond market was such that legal interest ceilings would have to be exceeded in order to sell the bonds. Consequently, the District entered into an interesting experiment with the city. The city financed the building by issuing and selling revenue bonds. The building was then leased to the school district. Prior to issuing the revenue bonds, a friendly law suit was arranged to test the legality of the mechanism. The court ruled in favor of the use of the mechanism.

This particular case study should be of partticular interest to School District 4J. In a tight money market it may not be possible to sell bonds at interest rates below the 7% Oregon limit, even if the District's voters badly want a school. Following Bowling Green's example would allow the district to circumvent statutory interest limits. A problem in Oregon, however, is that schools and municipal governments have always operated separately. It may be very difficult for a city to justify the selling revenue bonds for school purposes given this separation. In Kentucky the problem did not exist. Under state law, schools belong to the city in which they are located even though it is school districts who issue general obligation bonds.

13. The City of Naperville's Dedication Ordinance

In June 1972, the city of Naperville enacted a dedication ordinance (City Ordinance 72-20). This ordinance imposes conditions which must be met before subdivisions or planned unit developments will be approved. The ordinance requires dedication of land for parks and for school sites. The amount of land to be dedicated is determined according to criteria set up by the city regarding optimum capacity of schools and site size of elementary, junior high, and high schools to serve the population of the development. The number of school children expected from a development is calculated by reference to a table which estimates the average number of children that are usually forthcoming from certain housing types. School District 4J uses a similar technique in projecting the enrollment impact of new residential development on schools. In Naperville, the developer has the option of submitting his/her own estimates of the number of children expected if s/he objects to use of the table in the ordinance.

In cases where land dedication is impractical because of the small size of the subdivision or because of the unsuitable nature of land on which it is built (hillside development), the ordinance allows that fees in lieu of land can be donated, combinations of land dedications and monetary fee donations are also allowed. Fee donations may be used for acquiring land elsewhere or for site improvement. In the case of fee donations, the amount is determined by reference to a fair market price of land (that would have been required if land were dedicated instead), which is stipulated in the city ordinance. In 1977, the fair market value of land stipulated in the ordinance was $15,000 per acre. The developer has the right to present evidence contesting the use of this figure.

The ordinance also makes provision for combinations of dedications between small adjoining subdivisions. The ordinance permits the reservation of additonal land for school purposes which must be purchased from the developer within one year. This provision is included so that school districts have the option of acquiring more land than the developer is required to dedicate.

The city of Naperville's ordinance has been challenged in Illinois' District, Applelate and Supreme courts (Krughoff v. City of Naperville 369 NE2d 892). On all occasions the validity of the ordinance has been upheld.

14. Florida's State Supported Leasing Program

State laws allow Florida school districts to enter into lease or lease-purchase agreements with either the Florida Development Commission

or with private developers (EFL 1972). School districts may not, however, levy taxes to make lease payments. The state makes these payments out of revenues from a special Motor Vehicle Licensing tax. Long term leases by school districts are backed by a state pledge to provide necessary funds. This pledge provides private developers with the necessary security to build schools.

The program was initially designed to help school districts who had difficulty selling bonds, and reached their debt limit, or could not obtain voter approval. Unfortunately, the system gives voters an incentive not to approve general obligation bonds. Given that lease payments (under the state program) are paid with state money, a district has opportunity to spread the cost of a school over the entire state. State approval is, however, required before the program can be used. The lease program also increases the cost of schools because of higher interest payments that private organizations must make in borrowing money for constructing the facilities.

ASSESSING THE ALTERNATIVES: MECHANISMS FOR FINANCING SCHOOL CONSTRUCTION IN EUGENE PUBLIC SCHOOL DISTRICT 4J

A wide variety of mechanisms for financing new school construction have been identified and evaluated in this report. The purpose of this final section is to recommend a mechanism or package of mechanisms that is appropriate in Eugene Public School District 4J. Selection of appropriate mechanisms can be based on numerous criteria. One such criterion is legality. However, many of the mechanisms described in this report appear to be legal in Oregon or can be implemented in such a way as to make them legal. Only the use of certain kinds of bonds by school districts (such as term bonds) is definitely illegal. Yet many of these bond types can legally be used by other units of local government such as cities and counties. The legality of some of the mechanisms is dubious. These include land speculation, land or fee dedication, development taxes and the sharing and joint financing of facilities or sites with private organizations. The legality of these mechanisms will probably only be established by challenges in the courts. Legal counsel should be sought before implementing any mechanism that is not currently used.

Given that most of the mechanisms described in this report are probably legal in Oregon, other criteria must be used to choose the most appropriate package of financing mechanisms for District 4J. Three such criteria dominate the capital outlay literature, namely, efficiency, equity, and expediency. Efficient mechanisms are those which minimize the tax burden that the general public must bear and at the same time provide the level of funding necessary to provide the quality of services the public demands. Equity is more difficult to define. In most general terms, an equitable mechanism is one which allocates the burden of funding new school construction in a fair way. Finally, expedient mechanisms are those which are politically advantageous given a specific political and economic context.

The Efficient Mechanisms

Perhaps the most efficient of the mechanisms described in this report is the selling or leasing of air and/or ground rights above or below a proposed school. This mechanism makes use of an asset, namely air (or ground) space, that has been neglected in the past. The method has the potential to provide schools at no monetary cost to the school district. Whether or not the mechanism is capable of generating sufficient funds to finance a new school will depend on the demand for air space in District 4J. While demand in Eugene may not be as great as in bigger cities, land values are increasing at a rate that makes it reasonable to speculate that the sale of air rights is an option worth pursuing.

The selling of unused space and facilities is a mechanism with the potential to minimize taxpayer burden, but it is very unlikely that it is capable of generating sufficient revenues to cover the cost of new school construction on a continuing basis. Nonetheless, at the root of the facilities problem in Eugene, is the availability of excess space in some schools and crowding in others. The selling or leasing out of unused space is an option which has promise in Eugene especially if used in conjunction with some other mechanism.

Of the mechanisms that rely directly on taxation of some form, debt financing through the use of general obligation bonds is the most efficient in the Eugene context. This efficiency derives from the low interest payments on these bonds because of District 4J's excellent bond ratings. District 4J recently issued $6 million wort' in General obligation bonds at an interest rate of less than 6% even though the bond market was regarded to be poor. Given these low interest rates, and given the high rate of general inflation, the use of future dollars devalued by inflation to pay for construction now, represents a major efficiency advantage of the mechanism.

One time tax levies and the accumulation of money earmarked for construction are mechanisms which are quite capable of generating sufficient revenues, but both are likely to be more costly in the current Eugene context than the use of general obligation bonds. Neither of these mechanisms provide the economies that derive from using devalued future dollars to pay for present construction. The use of sinking funds may be particularly inefficient in Eugene at the current time. The costs of construction, both labor and materials is currently inflating at a rate somewhere between 15% and 20%. This is well above the interest that the district could earn on the money invested in a sinking fund.

Financing new construction with revenues from development taxes or fee dedications is less efficient than financing through general obligation bonds. This is because these taxes must usually be collected in a sinking fund until such time as construction is feasible and as such are subject to the efficiency shortcomings described above. Nor are the techniques capable of generating sufficient revenues for constructing schools.

Sharing facilities is an efficient mechanism for reducing taxpayer burden, but it is not a fund raising technique in and of itself. It simply reduces the need for the magnitude of funds for new construction. However, the efficiencies associated with the use of this mechanism should not be underestimated.

Perhaps the most inefficient of the mechanisms in District 4J is likely to be the leasing of school facilities from nonprofit organizations, building commissions, private organizations or other public agencies. Few of these organizations can match the interest rates on borrowed money that District 4J can get on general obligation bonds. This means that if lease payments are eventually to pay for a school building, that has been financed with money borrowed at high interest costs, then the building(s) will cost the general public more under a lease-purchase scheme, than would be the case if general obligation bonds were issued.

Equity

While it is difficult to specify what is meant by equity, in this country a public fund raising mechanism is generally regarded as equitable

(a) the tax burden does not fall heavily on low income individuals and

(b) those who benefit proportionately more from the services for which the funds are being collected, carry a proportionally greater portion of the tax burden.

Because school districts and other units of local government must rely heavily on property taxes, most of the tax mechanisms described in this report may be somewhat inequitable. Property taxes are generally regarded as regressive, (that is a proportionately larger burden falls on low income individuals). Development taxes and fee or land dedications may also be regressive taxes, but it is not clear whether this is the case in Eugene. Further research is needed to settle this matter. By far the most progressive of the mechanisms is state or federal aid. No state aid for school construction exists in Oregon and federal aid is very limited. It is also the case that most income taxes (which are the most progressive) are collected at the state and federal levels.

Whether a mechanism is equitable on the grounds that those who benefit most from the construction of a school also pay proportionately more, is difficult to determine. First, in the case of education, there is considerable controversy regarding the identification of the beneficiaries of education. One argument is that everyone benefits equally from an educated society and the progress such education makes available. It follows then, if this view is accepted, that a mechanism is equitable if everyone pays the costs of education. Under this definition of equity, general obligation bonds and the accumulation of money in a sinking fund would be the most equitable of the mechanisms that rely on taxes to raise funds. These mechanisms would be more equitable than the use of one-time levies because in the case of the latter the tax burden falls on one group of residents at one point in time while future residents pay nothing. Special assessment taxes, development taxes and land or fee dedications would be the least equitable because they place the burden of paying for school services on a specific group of individuals.

The counterargument is that while it is true that all of society benefits from the education of its members, in the case of school construction some individuals benefit substantially more. Residents in the neighborhood in which the school is built, it is argued, benefit far more than residents on the other side of the city. It is also argued that the homebuilding industry also benefits disproportionately from the availability of school services. The notion is that developer profits would not be as high if public services, including schools, were not available. Under these views, special assessment districts, development taxes and land or fee dedications would be the most equitable of the tax instruments.

It should be noted that equity considerations are less applicable to mechanisms that make use of non-tax revenues, such as selling of air rights, land speculation, sale of unused space and solicitation of gifts.

Expediency

Expediency as it is used here, refers to the use of politically advantageous strategy as the criterion for selecting a funding mechanism. The literature abounds with instances in which school districts have been forced to adopt mechanisms that were neither equitable nor efficient, but were politically feasible at the time. The use of less efficient lease-purchase agreements in cases where voter approval of bonds is unlikely, is a common example.

Perhaps the most expedient route for School District 4J is the continued use of general obligation bonds to finance new schools. While in accordance with national trends, the prevailing atmosphere within District 4J is one of fiscal conservatism, there is no basis at this time for expecting voters to consistently turn down the sale of bonds for school construction. In the past the residents of the District have shown a willingness to sell bonds for school construction. However, bond measures for construction in recent times have been few and far between. On the other hand voters have consistently been turning down operating budgets since 1965. This suggests that the use of mechanisms such as lease-purchase and sinking funds which require increases in the operating budget may not need to be considered until bond levies have actually failed at the polls.

The use of special assessment districts, development taxes and land or fee dedication is likely to be relatively expedient in Eugene. The community has in recent years shown a willingness to charge to occupants of new housing for the extension of public services. The public support for the recently (1978) imposed system's development tax is evidence of this willingness.

Non-tax mechanisms such as the sale of air rights and excess space are probably expedient in this time of fiscal conservatism. The same can be said for the cost reducing technique of shared facilities. Any mechanisms that serve to reduce the tax burden that the general public must bear are likely to be politically advantageous. The use of revenue bonds (by the City of Eugene), to finance some components of school buildings such as gymnasiums, halls and theaters, and swimming pools may also be expedient at this time, because it reduces the perceived taxes that the public must pay. While the public may end up paying more for these facilities, at least those paying for them through user charges are deriving direct benefits from their use.

A Package of Mechanisms for District 4J

From the preceding discussion it should be clear that no one mechanism is more efficient, more equitable and more expedient than all of the others. The non-tax mechanisms are generally efficient, expedient and not plagued by equity considerations as in the case of conventional tax mechanisms. These non-tax mechanisms do, however, depend on the existence of markets

for assets such as air space and unused facilities. It is not clear that markets of this kind presently exist in Eugene. The next 20 years may make these options more feasible. Nonetheless, a major recommendation of this report is that the school district explore non-tax options for financing new school construction before resorting to conventional tax mechanisms. A good starting point would be to make the development community aware that the school district is amenable to joint occupancy ventures and that air and ground rights on school properties are for sale.

Of the non-tax mechanisms, the use of general obligation bonds is probably the most suitable in Eugene. A second major recommendation of this report is that general obligation bonds continue to be used as the major tax source for financing new construction. Where non-tax mechanisms are unfeasible or insufficient, general obligation bonds should be used. Additional equity can be introduced by having a facilities which have the potential to generate user revenues, financed through sale of revenue bonds by the City of Eugene. The use of mechanisms such as fee dedication or development taxes to supplement or development bonds sales can also be used to increase the equity or funding mechanisms that the district uses provided that the community decides to define equity in this way.

Cost reducing techniques such as the sharing of facilities with other government agencies and good management practices should be pursued where possible. The District should initiate discussion with other government agencies and with private organizations to consider possible options.

Perhaps the most important recommendation of this report is that the District should realize that there are many mechanisms available for funding new school construction. The appropriateness of each will vary according to changes in the socio-politico context. However, at any one time it is likely that a package of mechanisms is likely to be more successful than reliance on a single mechanism.

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